

1 **Volume 2: Cost of Capital: Expert Opinion of James Coyne-Return on Equity**

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3 **Q. Would Mr. Coyne accept the basic justification for regulating utilities is that they**  
4 **are natural monopolies and would otherwise charge unjust and unreasonable rates**  
5 **so, effectively, regulation is a surrogate for competition? Further, are there many**  
6 **competitive firms that do not have “favourable” credit ratings?**  
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8 **A.** Mr. Coyne agrees that regulation is intended to serve as a substitute or surrogate for  
9 competition in markets that are not competitive, such as regulated public utilities, which  
10 are generally considered to be natural monopolies. Concentric has not reviewed the credit  
11 ratings for competitive firms as part of its ROE analysis for Newfoundland Power but  
12 would generally agree that corporate issuers have a broader range of credit ratings than  
13 regulated utilities, with many in the sub-investment grade category which creates a higher  
14 cost of capital and limits access to capital markets.